

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

DFA5034 – FINANCIAL ACCOUNTING 3

(All sections / Groups)

18 MARCH 2021
9.00 a.m. to 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 6 pages with 5 Questions only.
2. Answer **ALL** questions.
3. Write your answers in the Answer Booklet provided.

QUESTION 1**Part A**

Aaron operates a computer accessories shop in Bukit Beruang. The company uses periodic inventory system. Recently, there is a surge in the sales of its wireless bluetooth earbuds due to the need of online meetings as a result of Covid-19 pandemic.

On 1 December 2020, its inventory consists of 25 units at the cost of RM50 per unit. Below are transactions related to its inventory in the month of December:

Purchases				Sales	
Date	Particulars	Units	Unit Cost	Units	Unit Selling Price
Dec 5	Purchases	50	RM53		
8	Sales			30	RM100
11	Purchases	100	RM55		
17	Sales			60	RM120
24	Sales			40	RM120
30	Purchases	25	RM56		

Required

- (a) Compute the following:
- (i) Ending inventory units (1 mark)
 - (ii) Cost of goods available for sale (2.5 marks)
- (b) Show the calculation of the value of ending inventory under the following cost flow assumptions:
- (i) FIFO (1.5 marks)
 - (ii) Average-cost (1 mark)
- (c) Assume that the wireless bluetooth earbuds are the only inventory Aaron is selling. At the end of the year, the net realisable value of the inventory is RM3,800. Indicate at what amount the company's inventory will be reported using the lower-of-cost-or-net-realizable value basis for each of the two methods in (b). (1 mark)

Continued...

Part B

Belle owns a boutique in Dataran Pahlawan. The shop reported cost of goods sold as follows:

	2019	2020
Beginning inventory	RM24,000	RM45,000
Cost of goods purchased	238,000	265,000
Cost of goods available for sale	262,000	310,000
Ending inventory	(45,000)	(56,000)
Cost of goods sold	RM217,000	RM254,000

Belle sought for your help to correct her accounts after she has discovered the following two errors:

- (1) 2019 ending inventory excluded goods of RM5,000 which was purchased and still in transit on 31 December 2019. The shipping term was FOB shipping point.
- (2) An intern hired by Belle calculated twice a box of inventory costing RM3,000 during the physical count on 31 December 2020.

Required

- (a) Assuming the errors had not been corrected, prepare a correct report of cost of goods sold, and indicate the ringgit effect that the errors had on the items appearing on the financial statements listed below. Also indicate if the amounts are overstated or understated. (7 marks)

	2019		2020	
	Amount	Overstated/ Understated	Amount	Overstated/ Understated
Total assets	RM?	?	RM?	?
Owner's equity	RM?	?	RM?	?
Cost of goods sold	RM?	?	RM?	?
Net profit	RM?	?	RM?	?

- (b) Calculate the inventory turnover and days in inventory for Year 2020. Put your answers to 2 decimal places. (4 marks)
- (c) Given Belle's inventory turnover was 4.20 times and its days in inventory was 86.90 days last year. Briefly comment on the results in Year 2020 compared to Year 2019. (2 marks)

(Total: 20 marks)

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QUESTION 2

On 1 January 2020, the management of Jazz Sdn. Bhd. decided to purchase the following investments as trading securities:

400 shares of KNG Bhd.'s ordinary shares for RM8,800
 500 shares of Lux Bhd.'s ordinary shares for RM17,500
 600 shares of Milano Bhd.'s ordinary shares for RM22,800
 10 RM1,000, 8% Nano Bhd.'s bonds for RM10,000

On 30 June 2020, Jazz Sdn. Bhd. received the following cash dividends from its investments: KNG Bhd. RM1.50 per share; Lux Bhd. RM2.50 per share and Milano Bhd. RM3.00 per share.

On the same date, Jazz Bhd. received the semiannual interest on Nano Bhd. bonds. Thereafter, all Nano bonds were sold for RM9,700.

On 12 December 2020, Jazz Sdn. Bhd. sold 300 shares of KNG Bhd.'s ordinary shares for RM7,000 and paid brokerage fees of RM200.

On 31 December 2020, the fair value of the securities is as follow: KNG Bhd. RM24 per share; Lux Bhd. RM33 per share and Milano Bhd. RM40 per share.

Assume that Jazz Sdn. Bhd. cannot exercise significant influence over the activities of the investee companies and the cost method is used to account for the investments.

Required

- (a) Prepare the journal entries to record the following chronologically:
- (i) Acquisition of share and debt investments. (2 marks)
 - (ii) Dividend received. (1 mark)
 - (iii) Interest received. (1 mark)
 - (iv) Sale of share and debt investments. (3 marks)
 - (v) Adjusting entry to report the portfolio at fair value. (4 marks)
- (Show all your workings)*
- (b) Identify the accounts that will be reported in the Statement of Profit or Loss, and state the classification of each account. (5 marks)

Item	Classification

- (c) Your friend, Onn, is confused on the two types of accounting treatment for investments in equity securities. Briefly explain to Onn the cost method and equity method that you have learned in class. (4 marks)

(Total: 20 marks)

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QUESTION 3

Valerie and Wayne are siblings and they decided to form a partnership to operate an IT solutions company, Future Wave Technologies. Selected transactions and events pertaining to the partnership are as follows:

2019 Apr 4	The partnership was formed. Valerie invested cash RM30,000 and old equipment which cost her RM10,000 previously, but are worth only RM8,000 now. On the other hand, Wayne contributed cash RM20,000 and brought in his personal car with a fair value of RM35,000.
Dec 31	The partnership reported net profit of RM40,000 in its first year of operations. The partnership agreement specifies that profit and losses are divided by allowing 10% interest on each partner's initial investment, salary allowances of RM6,000 and RM8,000 for Valerie and Wayne respectively, with any remaining net profit divided equally. The partners did not withdraw any partnership assets for their personal use.
2020 Feb 1	Valerie and Wayne agreed to admit their childhood friend, Xue Xin, an experienced programmer into their partnership to increase profitability. Xue Xin purchased 30% of Valerie's equity interest for RM15,000 and also 30% of Wayne's equity interest for RM22,000. Payment went directly to Valerie and Wayne.
Dec 31	Net profit doubled to RM80,000. The new partnership agreement specifies that profit and losses will be divided by allowing RM6,000 salary allowances to all three partners with any remainder in a 3:3:4 ratio. Withdrawals summed up to RM10,000 for Valerie, RM12,000 for Wayne and RM14,000 for Xue Xin.
2021 May 1	Unfortunately, Xue Xin's father fell very sick. Due to her inability to focus and commit, she decided to retire from the partnership. The partnership agreed to purchase her equity interest for RM60,000.

Required

- Journalise the investment of the original partners on 4 April 2019. (3.5 marks)
- Prepare the Division of Net Profit schedule for the partnership for 2019. (3 marks)
- Journalise the division of net profit for each partner. (1.5 marks)
- Prepare the journal entry to record the admission of Xue Xin. (2.5 marks)
- Prepare the Division of Net Profit schedule for the partnership for 2020. (2.5 marks)
- Prepare a Partner's Capital Statement as at 31 December 2020. (4.5 marks)
- Prepare the journal entry to record the withdrawal of Xue Xin. (2.5 marks)

(Show all your workings)

(Total: 20 marks)

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QUESTION 4**Part A**

A provision is a liability of uncertain timing amount, such as litigation expense, warranty expense or product guarantees. However, not all provisions are recognised by companies.

Required

List down **THREE (3)** conditions that must be met for a company to accrue an expense and related liability for a provision. (3 marks)

Part B

Avenue Bay prepares its financial statements quarterly. Below are selected transactions extracted from the company's books:

Jan 15	Purchased merchandise on account from Ceria Trading, RM20,000, terms 2/15, n/45.
Feb 1	Issued a 6%, 2-month, RM20,000 note to Ceria Trading in payment of account.
Mar 31	Accrued interest for Ceria note.
Apr 1	Paid face value and interest on Ceria note.
Jul 1	Purchased furniture and fittings from Denko Furniture paying RM5,000 in cash and signing a 10%, 4-month, RM30,000 note.
Sep 30	Accrued the interest on Denko note.
Nov 1	Paid face value and interest on Denko note.
Dec 1	Borrowed RM15,000 from Ehsan Bank by issuing a 3-month, 8% note with a face value of RM15,000.
Dec 31	Accrued the interest on Ehsan note.

Required

- (a) Prepare the journal entries for the above transactions. (11.5 marks)
- (b) Prepare the current liabilities section of the Statement of Financial Position as at 31 December 2020. Assume the above transactions are the only ones related to current liabilities. (4 marks)
- (c) Calculate the total interest expense for the year. (1.5 marks)

(Total: 20 marks)

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QUESTION 5

The Statements of Financial Position for Hwarang Bhd. as of 31 December are presented as follows:

Hwarang Bhd.		
Statements of Financial Position as at 31 December		
	2020	2019
	(RM)	(RM)
<u>Assets</u>		
Building and equipment (net)	357,600	366,000
Prepaid expenses	41,200	27,600
Inventory	182,000	194,000
Accounts receivable (net)	141,600	112,000
Cash	84,000	78,000
	RM806,400	RM777,600
<u>Equity and Liabilities</u>		
Share capital – ordinary, RM10 par	280,000	280,000
Retained earnings	156,000	139,200
Bonds payable, due 2025	180,000	180,000
Accounts payable	137,600	130,400
Accrued liabilities	52,800	48,000
	RM806,400	RM777,600

Additional information for Year 2020

- Net sales was RM1,029,600. All sales are on credit.
- Cost of goods sold was RM720,000.
- Net profit was reported at RM156,800.

Required

- Prepare a schedule showing a horizontal analysis for 2020 using 2019 as the base year. Put your answers to 2 decimal places for percentage. (5.5 marks)
- Compute the following ratios for 2020. Put your answers to 2 decimal places.
 - Current ratio (2 marks)
 - Acid-test ratio (2 marks)
 - Average collection period (4 marks)
 - Inventory turnover (2 marks)
 - Profit margin (2 marks)
- If the company's credit terms is 30 days, is the average collection period satisfactory? Why? (1 mark)
- Briefly explain what is inventory turnover. Is a high or low inventory turnover favourable? Why? (1.5 marks)

(Total: 20 marks)

End of Paper